

SB/SE Exam Reengineering Project Drop in Article

IRS Teams Seek Input From Small Businesses, Tax Practitioners to Improve Audit Process

The Small Business/Self-Employed (SB/SE) Operating Division of the Internal Revenue Service (IRS) is redesigning the current audit process for small businesses and self employed individuals. This initiative, entitled, the “Exam Reengineering Project,” will redefine the way SB/SE conducts audits. SB/SE Commissioner Joe Kehoe summed up the overall goal of the Project by saying, “It’s time to update and simplify our audit procedures so we keep providing top quality services to our customers – the American taxpayer.” Additional goals of the Project include:

- Streamlining audit processes and reducing the taxpayer’s time and expense in dealing with the IRS; and
- Increasing SB/SE effectiveness and timeliness in auditing returns, collecting taxes, and resolving taxpayer issues.

SB/SE Customer Input is Key

From the onset of the Project, stakeholder input has been a very important element of the audit process redesign. The Project is currently in the third and final phase. During Phase I, the IRS teams gathered valuable insights and information through focus groups and interviews with more than 200 internal and external stakeholders. External stakeholders included tax practitioners, service providers, professional organizations and federal and state agencies. During Phase II, the teams used the information gathered in Phase I to create a blueprint of the audit process redesign.

Tell Us What You Think

Because the Exam Reengineering Project is in the final stages, now is the time to share your thoughts and insights about the proposed concepts with the IRS teams. The IRS teams are proposing to incorporate the following concepts into the redesigned audit process:

- **National Office vs. local office classification and selection of returns**
– Return classification and selection will be nationally controlled.
- **Examination scope setting** – The classifier will determine which returns will be audited and what issues will comprise the initial scope of the audit. The examiner’s role will be to execute the examination.

- **Managerial approval of audit plans** – Managers will review all audit plans and be apprised of all scope changes.
- **Time forecasts as part of audit plans** – The manager and examiner will determine an estimate of the time needed for the examination before the audit begins. This will be used for planning purposes and will be shared early on with the taxpayer.
- **Work paper and template standards** – Fairness of tax administration is enhanced by the use of consistent work paper formats and approaches.
- **“Audit engagement meeting” at the taxpayer’s place of business** – The audit issues, information needed for resolution, and the time forecast should be discussed with the taxpayer. The examiner and taxpayer should reach an agreement regarding the time necessary to complete the examination. The Service’s measure of “timeliness” should be based on this agreement.
- **Materiality guidelines** – The lack of national guidelines or direction for determining materiality results in every examiner determining their own measure of materiality. While the examiners are striving to do the right thing, this results in a wide range of determination across the country and within individual offices.
- **Managerial involvement guidelines and thresholds** – The current practice is for managers to become involved when a problem exists, the case becomes overage, or when the statute becomes eminent. Managerial involvement should shift to the “front end” of the process and base further involvement on significant audit events.

Your input truly is valuable, and was further reinforced by SB/SE Commissioner Kehoe when he said, "By tapping the diversity and expertise of the private sector, we can start achieving significant improvements in the exam selection process in fiscal year 2002."

Please send your comments to examreengineering@irs.gov.